



SF 2138 – Military Property Tax Exemptions (LSB 5501SV)

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Fiscal Note Version – New

Requested by Senator Daryl Beall

Description

Senate File 2138 expands the Disabled Veterans Homestead Tax Credit and modifies the military service property tax exemption and credit.

This Bill does the following to the Disabled Veterans Homestead Tax Credit:

- Eliminates the income limitation qualification for the Credit.
- Changes the eligibility for the Credit to include any eligible veteran, including former members of the National Guard of any state, with a permanent and total service-connected disability as certified by the U.S. Department of Veterans Affairs.

This Bill makes the following modifications to the military service property tax exemption and credit:

- Expands eligibility for the exemption and Credit to include Iowa residents that are current members of the armed services or former members of the National Guard of any state and their surviving relatives.
- Increases the exemption of property for eligible veterans from the current level of \$1,852 to 10.0% of the taxable value of property or \$15,000, whichever is less.
- Removes the tax credit limitation on the State's obligation of the \$6.92/\$1,000 of assessed exempted property for funding of the Credit and requires the State to fund the value of the credit based on the entire exemption. In any year the Credit for the exemption is not fully funded by the State, only the funded portion will be provided to the eligible property owners.

Background

The Disabled Veterans Homestead Tax Credit provides an exemption of property taxes for the eligible owner. In FY 2014, this Credit totaled \$313,747.

The military service property tax exemption and Credit provides that each eligible military member have \$1,852 of taxable valuation of property exempted for property tax purposes. Additionally, the State is required to fund the credit at \$6.92/\$1,000 of the exempted amount of property and apportion the amount to local jurisdictions. In FY 2014, the total exempted value of property was \$313.3 million, with a State General Fund appropriation of approximately \$2.4 million to fund the credit amount.

Assumptions

Assumptions for the Disabled Veterans Homestead Tax Credit include:

- A statewide average consolidated property tax rate of \$33.4098/\$1,000 of taxable valuation. Assumes the State will fully fund the Homestead Property Tax Credit (this includes the Disabled Veterans Homestead Tax Credit).
- The Department of Veteran Affairs (DVA) reported that there are 2,754 100.0% disabled Iowa veterans and that 60.0% of these veterans own their home.

- The average median home value is \$133,000. Total value will increase annually based on the Department of Revenue property tax residential growth projections. Taxable valuations are based on LSA residential rollback estimates.
- All eligible disabled veterans will claim the Credit and the number is assumed to remain static for this estimate.

Assumptions for the military service property tax exemption and Credit include:

- Currently, an estimated 168,411 veterans in Iowa receive the military serviced property tax exemption. Based on the U.S. Census 2012 American Community Survey, there were 179,687 current and former members of the military that owned homes in Iowa. This Bill expands the eligibility to all these individuals and it is assumed that all will claim the exemption.
- The estimate assumes the number of eligible individuals will remain static between 2014 and 2019.
- This estimate assumes that the average exempted value for eligible individuals will be \$7,046 in assessment year (AY) 2014. Statewide residential growth applied to taxable valuations will be 3.0%, in (AY) 2015, 2.5% in AY 2016, and 5.0% in AY 2017.
- The average consolidated levy rate for the military service property tax credit is assumed to remain at \$35.30/\$1,000 of taxable valuation for all years noted in this estimate.
- Reductions in taxable valuations will increase the State General Fund appropriation for school aid due to a decrease in the uniform levy (levy rate of \$5.40/\$1,000 of taxable valuation to fund the base of the school foundation levy). This estimate adjusts the consolidated levy rate so that portion is not included in the State appropriation for the military property tax exemption credit.
- Because of timing issues relating to the procedures for the calculation and application of property tax credits and exemptions, this Bill is assumed to have an initial impact in FY 2016.

Fiscal Impact

[Senate File 2138](#) will increase annual General Fund expenditures beginning in FY 2016. The increase will include additional expenditures to fund the Disabled Veterans Tax Credit, the Military Service Tax Credit, and additional State school aid required to replace the uniform levy that will result due to a reduction in taxable valuation. The following table provides the impact based on incremental values resulting from the following provisions:

- The Disabled Veteran Tax Credit (labeled 1 in the table)
- The increased military tax credit amount resulting from the expanded eligibility (labeled 2a)
- The increased State school aid funding resulting from the expanded eligibility (labeled 2b)
- The increased military tax credit amount resulting from the increased level of exemption (labeled 2c)
- The increased State school aid funding resulting from the increased level of exemption (labeled 2d)
- The increased military tax credit amount resulting from the removal of the \$6.92/\$1,000 of valuation apportionment cap (labeled 2e)

General Fund Expenditure Estimated Increase Impact from SF 2138					
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Disabled Veteran Tax Credit - 1	\$ 0	\$ 3,607,000	\$ 3,715,000	\$ 3,906,000	\$ 4,062,000
Military Service Property Tax Exemption Provisions - 2					
Increased Credit Amount - 2a	\$ 0	\$ 145,000	\$ 145,000	\$ 145,000	\$ 145,000
Additional State School Aid - 2b	0	113,000	113,000	113,000	113,000
Change in Military Tax Credit Amount - 2c	\$ 0	\$ 6,458,000	\$ 6,674,000	\$ 6,859,000	\$ 7,239,000
Additional State School Aid - 2d	0	5,039,000	5,208,000	5,352,000	5,649,000
Change in Military Tax Credit Amount - 2e	\$ 0	\$ 21,925,000	\$ 22,642,000	\$ 23,257,000	\$ 24,519,000
Total for Military Service Property Tax Exemption and Credit	\$ 0	\$33,680,000	\$34,782,000	\$35,726,000	\$37,665,000
Total General Fund Expenditure Increase:	\$ 0	\$37,287,000	\$38,497,000	\$39,632,000	\$41,727,000

The total fiscal impact will be an estimated increase in State General Fund expenditures of \$37.3 million in FY 2016, \$38.5 million in FY 2017, \$39.6 million in FY 2018, and \$41.7 million in FY 2019.

Sources

Iowa Department of Veteran Affairs
Iowa Department of Revenue
LSA analysis and calculations

/s/ Holly M. Lyons

March 25, 2014

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.